

THE LEONARD LETTER

January 17, 2006

QUOTE OF THE WEEK

“If government is a steamroller, and that is in good part how I see it, the individuals who work in it are the atoms in the steel. The force of forward motion carries them along. There is inevitably an unaccountability, and in time often an indifference about what the steamroller rolls over. All the busy little atoms are watching each other, competing with each other, winning one for their little cluster. And no one is looking out and being protective of what the steamroller is rolling over--traditions, shared beliefs, individual rights, old assumptions, whatever is being rolled over today.” --Peggy Noonan

UNDER THE DOME

*****Reciprocal Ungratefulness*****

This title is my fancy name theory for the tension between Republican legislators and a Republican governor. They each expect the other to consult them more, to appreciate them more, and to be more loyal without question. And they each are always disappointed. Listening to the comments this week confirms my theory. You would have to look up the party designation to really know which legislator belongs to the same party as the Governor and which legislator is in the opposition.

Given my history in the legislative branch, I tend to agree with the Republican legislators' grievances that they should have been consulted on these proposals, particularly the oversized bonds. Legislators do have a good sense of what their own districts are thinking. Legislators also complain, with some justice, that the governor does not appreciate the position he puts them in. My friend Senator Abel Maldonado has agreed to carry the Governor's minimum wage increase proposal, but Maldonado is in a very competitive primary with another friend of mine, former Assemblyman Tony Strickland. You know that this one bill will be the key policy fight in their campaigns. Maldonado has put his own political future at great risk because he has agreed to help the Governor. Will the Governor appreciate this sacrifice?

On the other hand, governors complain, usually privately to Republican leaders, but sometimes publicly, that Republican legislators do not know how to follow. Generally, the governor is the most visible leader of the party, the best fundraiser, and the biggest media draw. Governors think that Republican legislators are more than ungrateful when they fail to recognize the governor's leadership. Then there is always a legislator or two who gets a very critical quote about the governor's policies in all the statewide press only to run downstairs to the governor's staff and say they did not mean it to sound critical. This hypocrisy only exacerbates the tension and only proves my theory of reciprocal ungratefulness.

*****Budget Balanced on Backs of All Who Pay Taxes*****

From the Leonard Blog 1/11/2006

I watched the presentation of the Governor's budget last week. The Governor was followed by his budget director, then by the legislative leaders. Speaker Nunez needs a new speechwriter. He complained that the budget is balanced on the backs of someone. Honestly, I forget who was his victim - the poor, the students, the employees, cats and dogs. But he is wrong. These groups may not be getting as big a share of the budget as he wants but budgets are balanced on revenue. And revenue comes from taxpayers. All government budgets are therefore balanced on the backs of taxpayers.

AROUND THE STATE

*****Could You Pass This Test*****

State schools superintendent Jack O'Connell has come under some fire for sticking by the requirement that students who want to receive a high school diploma in 2006 must pass the high school exit exam. Good job, Mr. Superintendent. Critics say that such a strict requirement is unfair and too hard. Lest you find yourself feeling sympathy with that attitude, I share here a few questions from the exit exam. Perhaps the state legislators who are objecting ought to take the exam themselves, and then we might learn more about the reasons for their opposition.

Question 1: If $x = -7$, then $-x =$
A. -7 , B. $-1/7$, C. $1/7$, D. 7

Question 2: Assume Y is an integer and solve for Y . $|Y+2| = 9$

A. $\{-11, 7\}$, B. $\{-7, 7\}$ C. $\{-7, 11\}$, D. $\{-11, 11\}$

Question 3: In a certain room, the number of chairs, c , is equal to 3 times the number of tables, t . Which equation matches the information? (The symbol x in this case represents the multiplication function.)

A. $3 \times c = t$, B. $3 \times t = c$, C. $3 \times c = 3 \times t$, D. $c \times t = 3$

Question 4: A shopkeeper has x kilograms of tea in stock. He sells 15 kilograms and then receives a new shipment weighing $2y$ kilograms. Which expression represents the weight of the tea he now has?

A. $x - 15 - 2y$, B. $x + 15 + 2y$, C. $x + 15 - 2y$, D. $x - 15 + 2y$

To review samples of the reading and writing portions of the exam, see
<http://www.cde.ca.gov/ta/tg/hs/documents/rtqela05rpt1.pdf>

*****The Quiet Amnesty*****

Last week the California Franchise Tax Board announced a new tax amnesty program. Apparently the FTB has inherent authority to waive penalties any time it wants. The program is in conjunction with the IRS campaign against abusive tax shelters. Taxpayers who are filing for relief under this amnesty with the IRS can now file with the FTB for similar relief. The only problem with this round of amnesty is that the deadline to file for relief is January 23rd. Yes, that is next week. Contact the IRS and the FTB immediately if you have any questions that you might be invested in an improper tax shelter. IRS Form 13750 is available on Web site:

<http://www.irs.gov/pub/irs-pdf/f13750.pdf>

FTB Form 638 is available on Web site: http://www.ftb.ca.gov/forms/05_forms/05_638.pdf

*****First Dumb, Now Dumber*****

From the Leonard Blog 1/1/2006

In October I related how CNBC smacked the economists at UCLA's Anderson School for their totally wrong prognostications on the housing market. CNBC put a graphic up showing that every year since 2002 -- when the median price for a house was \$200,000 less than it is now -- the Anderson School has been saying that houses are overvalued in California. Today's Contra Costa Times has a piece by George Avalos, "Economist Warns of Housing Slump." Take a wild guess where this economist works.

The Times paraphrases Christopher Thornberg of the Anderson School saying that California home prices are about 30 to 40 percent overvalued now, but a decline -- "if that comes about" -- would occur over the better part of a decade, not suddenly. There is so much wrong with this statement. On the one hand, the economist is saying that houses are at least 30 percent overvalued-- but on the other, it is going to take a decade for buyers to clue in. So if your modest house is worth \$300K now, Thornberg predicts it will likely be worth \$200K, or less, in 2016. If I were still in the Assembly, I would offer a resolution directing the president of UC to begin mandatory drug testing for the economists at the Anderson School.

Comments about the above blog posting:

Dr. Sean Snaith, Director of the Business Forecasting Center at UoP's Eberhardt School of Business <http://forecast.pacific.edu/index.html> has sent me his thoughts on the housing market:

"I have been advocating against a bubble for 8 months now and have proposed an alternative metaphor: The Housing Souffle. The housing market, like a souffle, has been the combination of all the right ingredients blended together in just the right environment that has allowed for the souffle to rise. A bubble by definition must burst, a souffle on the other hand does not. It is a delicate pastry and it *can* go flat if the ingredients are not correct or the environment is not conducive. The housing market is fundamentals driven and it will take a reversal in fundamentals to cause it to recede. Other countries besides the U.S. have had housing 'bubbles' in recent history (the U.K. is one) and they are seeing a flattening out, not a 'pop' in the housing market. I expect the same in the US as the souffle comes out of the oven in 2005 and cools a bit in 2006."

MISCELLANY

*****A Good Read*****

This week's recommendation is not one you will read cover to cover in one sitting, but it is a tome worthy of a place on your shelf so that you may peruse it from time to time and be enlightened. "Lend Me Your Ears: Great Speeches in History," selected and introduced by William Safire, has been revised and expanded since its last publication. Safire, himself a former presidential speechwriter, has chosen oratory in a variety of fields, from war to tributes to lectures to commencement addresses. He introduces each piece with his own entertaining remarks that put the speech in broad historical context. A new chapter in this edition that I particularly enjoyed was "undelivered speeches," including the remarks President Kennedy was to deliver later the day he was assassinated, the comments that had been prepared for President Nixon in the event that astronauts who landed on the moon were unable to return, and the more contrite version of the speech delivered by President Clinton after his grand jury testimony about lying under oath. You have undoubtedly heard or read bits and pieces of some of these speeches, but in the modern era of sound bites, you are a rarity if you have ever heard the entire speech. I echo Mr. Safire's recommendation for how to get the most out of this book: "[P]lace yourself in the moments they were spoken, in the places where the orator stood, and then read them, silently or aloud, for their content."

BOE AND LEGISLATIVE DATES

January 31-February 1, 2006 --- BOE meets in Sacramento.

February 13, 2006 --- Abraham Lincoln's birthday holiday.

February 13, 2006 --- First day Declaration of Candidacy and Nominations papers can be turned in for candidates running in the June primary election.

February 20, 2006 --- Presidents' Day/George Washington's birthday holiday.

February 23, 2006 --- Last day to turn in petitions in-lieu of the filing fee for the June 2006 primary election.

March 7-9, 2006 --- BOE meets in Culver City.

NOTABLE DATES/ HISTORY

January 17, 1706 --- Benjamin Franklin was born in Boston.

January 17, 1773 --- Captain James Cook became the first person to cross the Antarctic Circle (66° 33' S).

January 17, 1994 --- 6.6 earthquake hit Los Angeles, killing 60 people and causing \$30 billion in damage.

January 17, 1995 --- Los Angeles Rams announced that they are moving to St. Louis.

January 18, 1777 --- San Jose, CA was founded.

January 18, 1869 ---The California Theatre opened in San Francisco.

January 19, 1984 --- The California Supreme Court refused to allow quadriplegic Elizabeth Bouvia to starve herself to death in a public hospital. She appealed and was later granted the right to die.

January 20, 1937 --- Temperature dropped to -45°F (-43°C) in Boca CA, a state record.

January 20, 1937 --- The first presidential inauguration to be held January 20th, as it has been every four years thereafter.

January 20, 1981 --- Fifty-two American hostages were set free in Iran after being held at the U.S. Embassy in Teheran for 444 days.

January 21, 1813 --- John C. Fremont – abolitionist, western explorer, U.S. Senator from California, U.S. Army general, Arizona governor, and first Republican presidential candidate—was born in Georgia.

January 21, 1977 --- President Jimmy Carter pardoned almost all Vietnam War draft evaders.

January 22, 1850 --- “Alta California” became a daily paper, the first in the state.

January 22, 1939 --- Aquatic Park, near Fisherman's Wharf, San Francisco was dedicated.

January 22, 2001 --- Condoleezza Rice became the first woman and second African-American to serve as U.S. National Security Advisor.

GENERAL TAX INFORMATION

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115
TDD service for the hearing impaired
TDD phones: 800-735-2929
Voice phones: 800-735-2922

To reach the Taxpayer Rights Advocate's office for assistance with any BOE issues, see <http://www.boe.ca.gov/tra/tra.htm>, or call toll-free 1-888-324-2798.

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